

REFERENCE TITLE: tax credits; TANF employment; repeal

State of Arizona
Senate
Forty-seventh Legislature
Second Regular Session
2006

SB 1447

Introduced by
Senator Gould; Representative Groe

AN ACT

REPEALING SECTIONS 43-1087 AND 43-1175, ARIZONA REVISED STATUTES; AMENDING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 12, SECTION 1, CHAPTER 264, SECTION 1, CHAPTER 316, SECTION 2 AND CHAPTER 317, SECTION 10; REPEALING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 292, SECTION 1; AMENDING SECTION 43-1021, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 316, SECTION 3 AND CHAPTER 317, SECTION 11; REPEALING SECTION 43-1021, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 292, SECTION 2; AMENDING SECTION 43-1022, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1121, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 317, SECTION 13; REPEALING SECTION 43-1121, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 292, SECTION 4; RELATING TO INCOME TAX CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Repeal

Sections ~~43-1087~~ and ~~43-1175~~, Arizona Revised Statutes, are repealed.

Sec. 2. Section 43-222, Arizona Revised Statutes, as amended by Laws 2005, chapter 12, section 1, chapter 264, section 1, chapter 316, section 2 and chapter 317, section 10, is amended to read:

~~43-222.~~ Income tax credit review schedule

Each year the joint legislative income tax credit review committee shall review the following income tax credits:

1. In 2005, ~~sections 43-1087,~~ SECTION 43-1088 ~~and 43-1175.~~

2. In 2006, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02, 43-1090, 43-1176 and 43-1181.

3. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165, 43-1166, 43-1167 and 43-1169.

4. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and 43-1178.

5. In 2009, sections 43-1076, 43-1081.01, 43-1083, 43-1084, 43-1162 and 43-1170.01.

6. In 2010, sections 43-1075, ~~and 43-1163.~~

~~7. In 2010, sections~~ 43-1079.01, ~~and 43-1090.01,~~ 43-1163, 43-1167.01 AND 43-1182.

~~8.~~ 7. In 2011, section 43-1074.02.

Sec. 3. Repeal

Section ~~43-222~~, Arizona Revised Statutes, as amended by Laws 2005, chapter 292, section 1, is repealed.

Sec. 4. Section 43-1021, Arizona Revised Statutes, as amended by Laws 2005, chapter 316, section 3 and chapter 317, section 11, is amended to read:

~~43-1021.~~ Additions to Arizona gross income

In computing Arizona adjusted gross income, the following amounts shall be added to Arizona gross income:

1. A beneficiary's share of the fiduciary adjustment to the extent that the amount determined by section 43-1333 increases the beneficiary's Arizona gross income.

2. An amount equal to the "ordinary income portion" of a lump sum distribution that was excluded from federal adjusted gross income pursuant to section 402(d) of the internal revenue code.

3. The amount of interest income received on obligations of any state, territory or possession of the United States, or any political subdivision thereof, located outside the state of Arizona, reduced, for tax years beginning from and after December 31, 1996, by the amount of any interest on indebtedness and other related expenses that were incurred or continued to purchase or carry those obligations and that are not otherwise deducted or subtracted in arriving at Arizona gross income.

4. Annuity income received during the taxable year to the extent that the sum of the proceeds received from such annuity in all taxable years prior

1 to and including the current taxable year exceeds the total consideration and
 2 premiums paid by the taxpayer. This paragraph applies only to those
 3 annuities with respect to which the first payment was received prior to
 4 December 31, 1978.

5 5. The excess of a partner's share of partnership taxable income
 6 required to be included under chapter 14, article 2 of this title over the
 7 income required to be reported under section 702(a)(8) of the internal
 8 revenue code.

9 6. The excess of a partner's share of partnership losses determined
 10 pursuant to section 702(a)(8) of the internal revenue code over the losses
 11 allowable under chapter 14, article 2 of this title.

12 7. The amount by which the adjusted basis of property described in
 13 this paragraph and computed pursuant to the internal revenue code exceeds the
 14 adjusted basis of such property computed pursuant to this title and the
 15 income tax act of 1954, as amended. This paragraph shall apply to all
 16 property which is held for the production of income and which is sold or
 17 otherwise disposed of during the taxable year, except depreciable property
 18 used in a trade or business.

19 8. The amount of depreciation or amortization of costs of any capital
 20 investment that is deducted pursuant to section 167 or 179 of the internal
 21 revenue code by a qualified defense contractor with respect to which an
 22 election is made to amortize pursuant to section 43-1024.

23 9. The amount of gain from the sale or other disposition of a capital
 24 investment which a qualified defense contractor has elected to amortize
 25 pursuant to section 43-1024.

26 10. Amounts withdrawn from the Arizona state retirement system, the
 27 corrections officer retirement plan, the public safety personnel retirement
 28 system, the elected officials' retirement plan or a county or city retirement
 29 plan by an employee upon termination of employment before retirement to the
 30 extent they were deducted in arriving at Arizona taxable income in any year.

31 11. That portion of the net operating loss included in federal adjusted
 32 gross income which has already been taken as a net operating loss for Arizona
 33 purposes or which is separately taken as a subtraction under the special net
 34 operating loss transition rule.

35 12. Any nonitemized amount deducted pursuant to section 170 of the
 36 internal revenue code representing contributions to an educational
 37 institution which denies admission, enrollment or board and room
 38 accommodations on the basis of race, color or ethnic background except those
 39 institutions primarily established for the education of American Indians.

40 13. The amount paid as taxes on property in this state with respect to
 41 which a credit is claimed under section 43-1078.

42 14. Amounts withdrawn from a medical savings account by the individual
 43 during the taxable year computed pursuant to section 220(f) of the internal
 44 revenue code and not included in federal adjusted gross income.

1 15. Any amount of agricultural water conservation expenses that were
2 deducted pursuant to the internal revenue code for which a credit is claimed
3 under section 43-1084.

4 16. The amount by which the depreciation or amortization computed under
5 the internal revenue code with respect to property for which a credit was
6 taken under section 43-1080 exceeds the amount of depreciation or
7 amortization computed pursuant to the internal revenue code on the Arizona
8 adjusted basis of the property.

9 17. The amount by which the adjusted basis computed under the internal
10 revenue code with respect to property for which a credit was claimed under
11 section 43-1080 and which is sold or otherwise disposed of during the taxable
12 year exceeds the adjusted basis of the property computed under section
13 43-1080.

14 18. The amount by which the depreciation or amortization computed under
15 the internal revenue code with respect to property for which a credit was
16 taken under either section 43-1081 or 43-1081.01 exceeds the amount of
17 depreciation or amortization computed pursuant to the internal revenue code
18 on the Arizona adjusted basis of the property.

19 19. The amount by which the adjusted basis computed under the internal
20 revenue code with respect to property for which a credit was claimed under
21 section 43-1074.02, 43-1081 or 43-1081.01 and which is sold or otherwise
22 disposed of during the taxable year exceeds the adjusted basis of the
23 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as
24 applicable.

25 20. The deduction referred to in section 1341(a)(4) of the internal
26 revenue code for restoration of a substantial amount held under a claim of
27 right.

28 21. The amount by which a net operating loss carryover or capital loss
29 carryover allowable pursuant to section 1341(b)(5) of the internal revenue
30 code exceeds the net operating loss carryover or capital loss carryover
31 allowable pursuant to section 43-1029, subsection F.

32 22. Any amount deducted pursuant to section 170 of the internal revenue
33 code representing contributions to a school tuition organization or a public
34 school for which a credit is claimed under section 43-1089 or 43-1089.01.

35 23. Any amount deducted in computing Arizona gross income as expenses
36 for installing solar stub outs or electric vehicle recharge outlets in this
37 state with respect to which a credit is claimed pursuant to section 43-1090.

38 ~~24. Any wage expenses deducted pursuant to the internal revenue code~~
39 ~~for which a credit is claimed under section 43-1087 and representing net~~
40 ~~increases in qualified employment positions for employment of temporary~~
41 ~~assistance for needy families recipients.~~

42 25. 24. Any amount deducted for conveying ownership or development
43 rights of property to an agricultural preservation district under section
44 48-5702 for which a credit is claimed under section 43-1081.02.

~~26.~~ 25. The amount of any depreciation allowance allowed pursuant to section 167(a) of the internal revenue code to the extent not previously added.

~~27.~~ 26. With respect to property for which an expense deduction was taken pursuant to section 179 of the internal revenue code, the amount in excess of twenty-five thousand dollars.

~~28.~~ 27. The amount of any deductions that are claimed in computing federal adjusted gross income representing expenses for which a credit is claimed under section 43-1075.

28. THE AMOUNT BY WHICH THE DEPRECIATION OR AMORTIZATION COMPUTED UNDER THE INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY FOR WHICH A CREDIT WAS TAKEN UNDER SECTION 43-1090.01 EXCEEDS THE AMOUNT OF DEPRECIATION OR AMORTIZATION COMPUTED PURSUANT TO THE INTERNAL REVENUE CODE ON THE ARIZONA ADJUSTED BASIS OF THE PROPERTY.

29. THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY FOR WHICH A CREDIT WAS CLAIMED UNDER SECTION 43-1090.01 AND WHICH IS SOLD OR OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR EXCEEDS THE ADJUSTED BASIS OF THE PROPERTY COMPUTED UNDER SECTION 43-1090.01.

Sec. 5. Repeal

Section ~~43-1021~~, Arizona Revised Statutes, as amended by Laws 2005, chapter 292, section 2, is repealed.

Sec. 6. Section 43-1022, Arizona Revised Statutes, is amended to read:

~~43-1022.~~ Subtractions from Arizona gross income

In computing Arizona adjusted gross income, the following amounts shall be subtracted from Arizona gross income:

1. The amount of exemptions allowed by section 43-1023.

2. Benefits, annuities and pensions in an amount totaling not more than two thousand five hundred dollars received from one or more of the following:

(a) The United States government service retirement and disability fund, retired or retainer pay of the uniformed services of the United States, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law.

(b) The Arizona state retirement system, the corrections officer retirement plan, the public safety personnel retirement system, the elected officials' retirement plan, an optional retirement program established by the Arizona board of regents under section 15-1628, an optional retirement program established by a community college district board under section 15-1451 or a retirement plan established for employees of a county, city or town in this state.

3. A beneficiary's share of the fiduciary adjustment to the extent that the amount determined by section 43-1333 decreases the beneficiary's Arizona gross income.

4. The amount of any distributions from an individual retirement account as provided for in section 408 of the internal revenue code or from a qualified retirement plan of a self-employed individual as provided for in section 401 of the internal revenue code to the extent that total adjustments made pursuant to this paragraph in all tax years do not exceed the total of all contributions made by the taxpayer to such plans prior to December 31, 1975, which were included in computing Arizona taxable income.

5. The amount of income on an installment receivable which is recognized pursuant to the internal revenue code and which has already been recognized on the death of the taxpayer for purposes of this title for tax years ending before January 1, 1990.

6. Interest income received on obligations of the United States, less any interest on indebtedness, or other related expenses, and deducted in arriving at Arizona gross income, which were incurred or continued to purchase or carry such obligations.

7. The amount of any income tax refunds which were received from states other than Arizona and which were included as income in computing federal adjusted gross income.

8. Annuity income included in federal adjusted gross income pursuant to section 72 of the internal revenue code if the first payment with respect to such annuity was received prior to December 31, 1978.

9. The excess of a partner's share of income required to be included under section 702(a)(8) of the internal revenue code over the income required to be included under chapter 14, article 2 of this title.

10. The excess of a partner's share of partnership losses determined pursuant to chapter 14, article 2 of this title over the losses allowable under section 702(a)(8) of the internal revenue code.

11. The amount by which the adjusted basis of property described in this paragraph and computed pursuant to this title and the income tax act of 1954, as amended, exceeds the adjusted basis of such property computed pursuant to the internal revenue code. This paragraph shall apply to all property which is held for the production of income and which is sold or otherwise disposed of during the taxable year other than depreciable property used in a trade or business.

12. The amount allowed by section 43-1024 for amortization, by a qualified defense contractor certified by the department of commerce under section 41-1508, of a capital investment for private commercial activities.

13. The amount of gain included in federal adjusted gross income on the sale or other disposition of a capital investment that a qualified defense contractor has elected to amortize pursuant to section 43-1024.

14. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

15. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for

1 employer paid social security taxes on employee cash tips and the Indian
2 employment credit that the taxpayer received under sections 45A, 45B, 51(a)
3 and 1396 of the internal revenue code.

4 16. The amount of prizes or winnings less than five thousand dollars in
5 a single taxable year from any of the state lotteries established and
6 operated pursuant to title 5, chapter 5, article 1, except that all such
7 winnings before March 22, 1983, including periodic distributions from such
8 winnings made after March 22, 1983, may be subtracted.

9 17. The amount of exploration expenses that is determined pursuant to
10 section 617 of the internal revenue code, that has been deferred in a taxable
11 year ending before January 1, 1990 and for which a subtraction has not
12 previously been made. The subtraction shall be made on a ratable basis as
13 the units of produced ores or minerals discovered or explored as a result of
14 this exploration are sold.

15 18. The amount included in federal adjusted gross income pursuant to
16 section 86 of the internal revenue code, relating to taxation of social
17 security and railroad retirement benefits.

18 19. To the extent not already excluded from Arizona gross income under
19 section 112 of the internal revenue code, compensation received for active
20 service as a member of the armed forces of the United States for any month
21 during any part of which the member served in a combat zone as determined
22 under section 112 of the internal revenue code or in an area given the same
23 treatment as a combat zone for purposes of section 112 of the internal
24 revenue code.

25 20. The amount of unreimbursed medical and hospital costs, adoption
26 counseling, legal and agency fees and other nonrecurring costs of adoption
27 not to exceed three thousand dollars. In the case of a husband and wife who
28 file separate returns, the subtraction may be taken by either taxpayer or may
29 be divided between them, but the total subtractions allowed both husband and
30 wife shall not exceed three thousand dollars. The subtraction under this
31 paragraph may be taken for the costs that are described in this paragraph and
32 that are incurred in prior years, but the subtraction may be taken only in
33 the year during which the final adoption order is granted.

34 21. The amount authorized by section 43-1027 for the taxable year
35 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

36 22. With respect to a medical savings account established pursuant to
37 section 43-1028:

38 (a) An eligible individual may subtract:

39 (i) The amount of contributions made by the individual's employer
40 during the taxable year to the individual's medical savings account pursuant
41 to section 43-1028 to the extent that the employer contributions are included
42 in the individual's federal adjusted gross income.

43 (ii) The amount deposited by the individual in the account during the
44 taxable year to the extent that the individual's contributions are included
45 in the individual's federal adjusted gross income.

(b) The individual's employer may subtract the amount of contributions made by the employer to a medical savings account established on the individual's behalf to the extent that the contributions are not deductible under the internal revenue code.

23. The amount by which a net operating loss carryover or capital loss carryover allowable pursuant to section 43-1029, subsection F exceeds the net operating loss carryover or capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code.

24. Any amount of qualified educational expenses that is distributed from a qualified state tuition program determined pursuant to section 529 of the internal revenue code and that is included in income in computing federal adjusted gross income.

25. Any item of income resulting from an installment sale that has been properly subjected to income tax in another state in a previous taxable year and that is included in Arizona gross income in the current taxable year.

26. The amount authorized by section 43-1030 relating to holocaust survivors.

27. The amount authorized by section 43-1031 for constructing an energy efficient residence.

28. An amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year computed as if the election described in section 168(k)(2)(C)(iii) of the internal revenue code had been made for each applicable class of property in the year the property was placed in service.

29. With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer that complied with section 43-1021, paragraph ~~26~~ 25 with respect to that property, the amount of depreciation that has been allowed pursuant to section 167(a) of the internal revenue code to the extent that the amount has not already reduced Arizona taxable income in the current or prior taxable years.

30. With respect to property for which an adjustment was made under section 43-1021, paragraph ~~27~~ 26, an amount equal to one-fifth of the amount of the adjustment pursuant to section 43-1021, paragraph ~~27~~ 26 in the year in which the amount was adjusted under section 43-1021, paragraph ~~27~~ 26 and in each of the following four years.

Sec. 7. Section 43-1121, Arizona Revised Statutes, as amended by Laws 2005, chapter 317, section 13, is amended to read:

43-1121. Additions to Arizona gross income; corporations

In computing Arizona taxable income for a corporation, the following amounts shall be added to Arizona gross income:

1. The amounts computed pursuant to section 43-1021, paragraphs 3 through 9, 12, ~~26 and 27~~ 25 AND 26.

2. The amount of dividend income received from corporations and allowed as a deduction pursuant to sections 243, 244 and 245 of the internal revenue code.

3. Taxes which are based on income paid to states, local governments or foreign governments and which were deducted in computing federal taxable income.

4. Expenses and interest relating to tax-exempt income on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the tax imposed by this title. Financial institutions, as defined in section 6-101, shall be governed by section 43-961, paragraph 2.

5. Commissions, rentals and other amounts paid or accrued to a domestic international sales corporation controlled by the payor corporation if the domestic international sales corporation is not required to report its taxable income to this state because its income is not derived from or attributable to sources within this state. If the domestic international sales corporation is subject to article 4 of this chapter, the department shall prescribe by rule the method of determining the portion of the commissions, rentals and other amounts which are paid or accrued to the controlled domestic international sales corporation and which shall be deducted by the payor. "Control" for purposes of this paragraph means direct or indirect ownership or control of fifty per cent or more of the voting stock of the domestic international sales corporation by the payor corporation.

6. Federal income tax refunds received during the taxable year to the extent they were deducted in arriving at Arizona taxable income in a previous year.

7. The amount of net operating loss taken pursuant to section 172 of the internal revenue code.

8. The amount of exploration expenses determined pursuant to section 617 of the internal revenue code to the extent that they exceed seventy-five thousand dollars and to the extent that the election is made to defer those expenses not in excess of seventy-five thousand dollars.

9. Amortization of costs incurred to install pollution control devices and deducted pursuant to the internal revenue code or the amount of deduction for depreciation taken pursuant to the internal revenue code on pollution control devices for which an election is made pursuant to section 43-1129.

10. The amount of depreciation or amortization of costs of child care facilities deducted pursuant to section 167 or 188 of the internal revenue code for which an election is made to amortize pursuant to section 43-1130.

11. Arizona state income tax refunds received, to the extent the amount of the refunds is not already included in Arizona gross income, if a tax benefit was derived by deduction of this amount in a prior year.

12. The amount paid as taxes on property in this state by a qualified defense contractor with respect to which a credit is claimed under section 43-1166.

1 13. The loss of an insurance company that is exempt under section
2 43-1201 to the extent that it is included in computing Arizona gross income
3 on a consolidated return pursuant to section 43-947.

4 14. The amount by which the depreciation or amortization computed under
5 the internal revenue code with respect to property for which a credit was
6 taken under section 43-1169 exceeds the amount of depreciation or
7 amortization computed pursuant to the internal revenue code on the Arizona
8 adjusted basis of the property.

9 15. The amount by which the adjusted basis computed under the internal
10 revenue code with respect to property for which a credit was claimed under
11 section 43-1169 and which is sold or otherwise disposed of during the taxable
12 year exceeds the adjusted basis of the property computed under section
13 43-1169.

14 16. The amount by which the depreciation or amortization computed under
15 the internal revenue code with respect to property for which a credit was
16 taken under either section 43-1170 or 43-1170.01 exceeds the amount of
17 depreciation or amortization computed pursuant to the internal revenue code
18 on the Arizona adjusted basis of the property.

19 17. The amount by which the adjusted basis computed under the internal
20 revenue code with respect to property for which a credit was claimed under
21 either section 43-1170 or 43-1170.01 and which is sold or otherwise disposed
22 of during the taxable year exceeds the adjusted basis of the property
23 computed under section 43-1170 or 43-1170.01, as applicable.

24 18. The deduction referred to in section 1341(a)(4) of the internal
25 revenue code for restoration of a substantial amount held under a claim of
26 right.

27 19. The amount by which a capital loss carryover allowable pursuant to
28 section 1341(b)(5) of the internal revenue code exceeds the capital loss
29 carryover allowable pursuant to section 43-1130.01, subsection F.

30 20. Any amount deducted in computing Arizona taxable income as expenses
31 for installing solar stub outs or electric vehicle recharge outlets in this
32 state with respect to which a credit is claimed pursuant to section 43-1176.

33 ~~21. Any wage expenses deducted pursuant to the internal revenue code~~
34 ~~for which a credit is claimed under section 43-1175 and representing net~~
35 ~~increases in qualified employment positions for employment of temporary~~
36 ~~assistance for needy families recipients.~~

37 ~~22.~~ 21. Any amount of expenses that were deducted pursuant to the
38 internal revenue code and for which a credit is claimed under section
39 43-1178.

40 ~~23.~~ 22. Any amount deducted for conveying ownership or development
41 rights of property to an agricultural preservation district under section
42 48-5702 for which a credit is claimed under section 43-1180.

43 ~~24.~~ 23. The amount of any deduction that is claimed in computing
44 Arizona gross income and that represents a donation of a school site for
45 which a credit is claimed under section 43-1181.

1 ~~25.~~ 24. The amount of any deductions that are claimed in computing
2 federal taxable income representing expenses for which a credit is claimed
3 under section 43-1163.

4 25. ANY AMOUNT DEDUCTED IN COMPUTING ARIZONA TAXABLE INCOME AS EXPENSES
5 FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN THIS STATE
6 WITH RESPECT TO WHICH A CREDIT IS CLAIMED PURSUANT TO SECTION 43-1182.

7 Sec. 8. Repeal

8 Section ~~43-1121~~, Arizona Revised Statutes, as amended by Laws 2005,
9 chapter 292, section 4, is repealed.

10 Sec. 9. Requirements for enactment; two-thirds vote

11 Pursuant to article IX, section 22, Constitution of Arizona, this act
12 is effective only on the affirmative vote of at least two-thirds of the
13 members of each house of the legislature and is effective immediately on the
14 signature of the governor or, if the governor vetoes this act, on the
15 subsequent affirmative vote of at least three-fourths of the members of each
16 house of the legislature.